Corn and Soybeans Outlook

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Good harvest progress and yield reports across the nation and WI

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Harvest activity has picked up in the mid-west and expected to progress well for much of the next week with minor weather related events such as rains or thunderstorms. Harvest progress rate is well ahead of last year and is also above five years average for corn and soybeans in WI.

Weather conditions are predicted to be moderate across Midwest for next 10 days with cool temperatures over this weekend followed by warmer weather again early next week. This will put harvest on high gear during this week.

Illinois and Iowa farmers are reporting yields far better than they expected during this drought-parched summer. Wisconsin yield reports for corn and soybeans show an increase in the yield levels for both crops but there is variation depending upon planted dates and soil types in different counties. This year WI output is expected to be large.

Corn

From the latest crop progress reports, corn acres harvested is at 26% across the nation and it is about the same as 2000-2004 five years average but 3% above last year average. WI corn harvested is at 10% compared to 2% last year and is progressing well. Crop conditions reported for WI corn in good to excellent category has increased by 2% and 1% from last week.

Currently, corn December futures prices are trading at 205 cents per bushel. If you followed the futures price action since summer (see figure1) there were opportunities presented for astute marketer to lock in high prices around $2.60 range through forward pricing or using futures hedges. For corn the seasonal tendency of the futures market is to post a harvest low in late September or early October while basis bids normally hit seasonal lows in mid-October.

Fig. 1: CBT December Corn Futures Prices.

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Latest, grain stocks report stated that corn stocks in the nation are up by 120% and soybeans stocks were up by 127% from previous year. These ending stocks numbers are high and with increased production this year storage is going to be a big issue and low prices will continue for some time. But the futures markets reacted upside following this grains stock report release as these estimates were within trade expectations. This was considered a technical rally and the fundamental factors still favor bearish camp.

At most of the WI markets the cash markets are trading low and the basis is weak. Cash bids for corn are at 137-172 cents range and cash forward prices for January delivery are at 179-195 cents range. Basis levels will become weak until the middle of October and after that we should start seeing firming of the basis. In general, low prices occur earlier when the harvest season is proceeding quickly than normal.

The current stocks to use ratio of corn is at 19.3% level which is close to normal levels of 20% at this time but could increase in the next report. Corn export sales were 6% below the previous week. Export situation is improving.

Soybeans

Soybean acres harvested is at 36% across the nation and it is at 30% during previous year. WI soybeans harvested is at 23% compared to 9% last year and 13% average of five years from 2000 to 2004. Harvest progress is rapidly advancing. Crop conditions reported for soybeans in excellent category has increased by 2% from last week.

Currently, soybeans November futures prices are trading at 565 cents per bushel. If you followed the futures price action since summer (see figure2) there were opportunities presented to lock in prices at $7.00 and above through forward pricing or using futures hedges.

Fig. 2: CBT November Soybean Futures Prices.

For Soybeans, cash prices tend to be weak at the end of September and up to middle of the October the basis levels will become weak. Cash bids for soybeans in WI are at 493-536 cents per bushel range and cash forward prices for January delivery are at 547-569 cents range.

Soybean net export sales were reported at 675,900 metric tonnes which are 10% below previous week.

Demand for soybean oil is strong and it is spilling over into soybean and meal markets. But the beans and meal markets are on bearish trend. Bean oil remains a hot commodity as international interest is turning to increased bio-diesel demand due to high crude oil prices.

Corn one metric tonne = 39.39 bushels
Soybeans one metric tonne = 36.74 bushels

International News

Once the US harvest is known the scene will shifts to South American crop production and export demand.

Brazil's soybean and corn producers are facing cash squeeze due to low prices and heavy indebtedness which will restrict this year and next years planted acres. High value of exchange rate, soaring natural gas and increased fertilizer costs will put more pressure on producers.

South American farmers planting intentions have indicated low for corn due to high nitrogen costs, lack of credit availability and low prices. But it is too early to talk about planting acres in South.

U.S. Grain Council report says that Chinese 2005 corn production was going to decline by 4-5% from the prior year.

China soybean production is a concern this year and import demand is expected to be high. China's 2005/2006 soybean imports are forecast at 27 million metric tonnes. China demand for soybeans will go up for feed usage.

India's cooking oil needs will be greater and the country's economy is expanding at a good rate of 8.1%.

Marketing Strategies

Producers should start focusing on the post-harvest marketing alternatives such as putting the commodity in storage and placing a storage hedge using futures contracts.

If you have placed a production hedge during planting time using harvest time futures prices and have storage availability, it is good to start thinking about putting the crops in storage with a storage hedge to take advantage of strengthening basis into the marketing year.

If you missed placing a production hedge, as the cash prices are low now, the recommendation is to take the loan and put the crop under storage. If you are faced with serious storage problems, dispose that fraction of production which you can not afford to store in the cash market and purchase some call options to speculate high prices into the future.

The rising costs of shipping commodities along with rising crude prices and transportation bottlenecks will keep hinterland basis levels weaker for couple more weeks. Producer resistance to selling and improvements in export projections will provide the support. We will start seeing good improvements in basis levels as we progress more into the marketing year.

For corn this is a good time to take LDP's as the cash prices are low and in most of the counties in WI the LDP's are at 43-47 cents range or more.

Thinking Loud

The market focus for the coming weeks will shift to the USDA's production report scheduled to be released on September 12. Through this report we get to know the fall's harvest and impact of summer weather on total output. New crop corn and soybean production numbers are expected to increase in the coming October 12th crop production report. Until this reports release the markets will fluctuate in the lower ranges.

Private forecasters issued a prediction that U.S. corn production will rise to 10.98 billion bushels and soybean output to 3.105 billion. They predicted 10.38 and 2.84 billion, respectively, a month ago. USDA's September forecasts were 10.64 and 2.86 billion.

Once the production numbers become clear, this year the surprises will come from demand side. More demand for ethanol production (25% more ethanol plants will go into production this year) is projected. Increase in exports is anticipated as crop production and stock levels in other countries are low and economic growth is strong. Moderate increase in livestock production is expected across the globe. We should see strong domestic demand for ethanol production rather than great expansion in livestock feed usage in US.

Most recently, dollar is rising against major currencies due to on going interest rate increases by Federal Reserve in US that is aimed at curbing inflation. If dollar becomes strong as we progress into the marketing year that might put pressure on foreign buyers.

Finally, corn's nearby price outlook is limited due to high expected US harvest and soybeans will also see low prices over next two weeks.

Basis: The difference between the current cash price and the futures price of the same commodity. Unless otherwise specified, the price of the nearby futures contract month is generally used to calculate the basis.

Bear: Someone who thinks market prices will decline.

Bear Market: A period of declining market prices.

Next bi-weekly report will come on Tuesday, October 18, 2005.